Kentucky Investment Fund Act (KIFA)
Program Overview

Introduction

The Kentucky Investment Fund Act (KIFA) offers a 40% tax credit to certain personal and corporate investors in approved investment funds. The purpose of KIFA is to encourage capital investment in the Commonwealth of Kentucky, to encourage the establishment of small businesses in Kentucky, to provide additional jobs, and to encourage the development of new products and technologies in the state through capital investments. After credits are allocated to a fund, the credits are proportionately granted to the fund's investors upon its completion of qualified investments. The Commonwealth, through the Kentucky Economic Development Finance Authority (KEDFA), allocates the credits to investment funds.

Carefully review KRS 154.20-250 - 154.20-284 for a complete description of KIFA.

Fund and Investment Requirements:

- Minimum fund size: $500,000
  - $500,000 in committed cash contributions to the fund must be made prior to any allocation of credits.
  - A certified investment fund must have no less than four (4) unaffiliated investors.
  - No investor may have a capital interest in more than 40% of the investment fund's total capitalization.

- "Qualified Investments" eligible for this tax credit are investments in Kentucky-based small businesses that meet the following criteria at the time an investment is made:
  - 50% of the company's assets, operations and employees are located in Kentucky;
  - The company's net worth is less than $5 million (or $10 million, if it is a knowledge-based business) or its net income in each of the prior two years is less than $3 million; and
  - The company has no more than 100 employees.

- Further, each qualified investment must be in a business that is be actively and principally engaged in a "qualified activity" within Kentucky, or will be actively and principally engaged in a "qualified activity" within Kentucky after the receipt of a qualified investment.

- "Qualified activity" means any industrial, manufacturing, mining, mining reclamation for economic development, commercial, health care, agricultural enterprise, or agribusiness activity. A "qualified activity" does not include any activity principally engaged in by financial institutions, commercial development companies, credit companies, financial or investment advisors, brokerage or financial firms, other investment funds or investment managers, charitable and religious institutions, oil and gas exploration companies, insurance companies, residential housing developers, retail establishments, or any activity determined to be against the public interest, against the purposes of KIFA, or in violation of any law.

- Any investment not in a qualified small business may be made by a fund, but shall not be eligible for the tax credits.

- The total amount of tax credits available to any single investment fund shall not exceed, in aggregate, $8,000,000 for all investors and all taxable years.

- Total qualified investments made by an investment fund in any single business shall not exceed 30% of the committed cash contributions to the investment fund.

- The fund's stated purpose must be to primarily encourage and assist in the creation, development or expansion of small businesses located in Kentucky.

Additional Points:

- Fund managers find the investors and make all investment decisions.

- No qualified investment shall be made in a small business that, prior to the investment being made, (i) is owned, in whole or in an amount greater than 20%, by any investor, officer, director, partner, member, manager, trustee or employee of the investment fund or the investment fund manager, or (ii) employs on a full-time or part-time basis an investor in the investment fund.

- An investment fund manager and its affiliates may operate no more than three (3) separate investment funds pursuant to separate applications submitted to and approved by KEDFA.

- Investors may be any persons or legal entities through which business is conducted that is subject to state tax liability, including financial institutions and insurance companies.

- A nonprofit entity may transfer, for some or no consideration, any or all of the credits it receives under KIFA. (KEDFA must be notified of any transfer within 30 days of the transfer.)

- The tax credit amount that may be claimed by an investor in any tax year shall not exceed fifty percent (50%) of the initial aggregate credit amount approved by KEDFA for the investment fund which would be proportionally available to the investor. The tax credit can be used to offset Kentucky tax liabilities. An investor may first claim its credit in the year following the year in which the credit is granted. No investor can take more than 50% of the credit in any one tax year. An investor may carry-forward unused credits for up to fifteen years.

- An investment fund shall lose all unused credits that are available to its investors if the investment fund does not make a qualified investment within one year of the date of its Investment Agreement with KEDFA or within any one year period thereafter through the end of its term of the agreement.

- Investors with any conviction for violating Kentucky's tax laws within the past 10 years are ineligible to receive credits under KIFA.

- Fund managers are required to provide annual audits and reports to KEDFA.

For more information, contact:

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